VistaGen Therapeutics, Inc.
Form 10-Q
August 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013
or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File Number: 000-54014

VistaGen Therapeutics, Inc.
(Exact name of registrant as specified in its charter)

Nevada	20-5093315
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

343 Allerton Avenue
South San Francisco, CA 94080
(Address of principal executive offices including zip code)

(650) 577-3600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-Accelerated filer	[ ]	Smaller reporting company	[X]
(do not check if a smaller reporting company)			

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of August 12, 2013, 21,811,877 shares of the registrant’s common stock, $0.001 par value, were issued and outstanding.

VistaGen Therapeutics, Inc.
Quarterly Report on Form 10-Q
for the Quarter Ended June 30, 2013

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

VISTAGEN THERAPEUTICS, INC.
(a development stage company)
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in Dollars, except share amounts)

	June 30, 2013 (Unaudited)	March 31, 2013 (Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents	$89,800	$638,100
Unbilled contract payments receivable	-	-
Prepaid expenses	134,900	33,700
Total current assets	224,700	671,800
Property and equipment, net	178,100	180,700
Security deposits and other assets	29,000	29,000
Total assets	$431,800	$881,500
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$1,758,600	$1,353,700
Accrued expenses	371,300	342,900
Notes payable and accrued interest	695,300	617,100
Notes payable and accrued interest to related parties	100,400	93,000
Capital lease obligations	7,700	7,600
Total current liabilities	2,933,300	2,414,300
Non-current liabilities:		
Senior secured convertible promissory notes, net of discount of $1,947,100 at June 30, 2013 and $1,963,100 at March 31, 2013 and accrued interest	1,527,300	1,425,700
Notes payable, net of discount of $1,075,200 at June 30, 2013 and $1,142,600 at March 31, 2013	2,192,400	2,091,800
Notes payable to related parties, net of discount of $136,500 at June 30, 2013 and $147,200 at March 31, 2013 and accrued interest	1,134,600	1,106,000
Warrant liability	4,589,100	6,394,000
Capital lease obligations	4,000	6,100
Total non-current liabilities	9,447,400	11,023,600
Total liabilities	12,380,700	13,437,900
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, $0.001 par value; 10,000,000 shares, including 500,000 Series A shares, authorized at June 30, 2013 and March 31, 2013; 500,000 Series A shares issued and outstanding at June 30, 2013 and March 31, 2013, respectively	500	500
Common stock, $0.001 par value; 200,000,000 shares authorized at June 30, 2013 and March 31, 2013; 23,937,631 and 23,480,169 shares issued at June 30, 2013 and March 31, 2013, respectively	23,900	23,500
Additional paid-in capital	59,687,400	59,266,000
	(3,968,100)	(3,968,100)

Treasury stock, at cost, 2,713,308 shares of common stock held at June 30, 2013 and March 31, 2013		
Notes receivable from sale of common stock	(209,100)	(209,100)
Deficit accumulated during development stage	(67,483,500)	(67,669,200)
Total stockholders' deficit	(11,948,900)	(12,556,400)
Total liabilities and stockholders' deficit	$431,800	$881,500

See accompanying notes to Condensed Consolidated Financial Statements.

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VISTAGEN THERAPEUTICS, INC.
(a development stage company)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)
(Amounts in dollars, except share amounts)

	Quarters Ended June 30,		May 26, 1998 (Inception) Through June 30,
	2013	2012	2013
Revenues:			
Grant revenue	$-	$200,400	$12,963,100
Collaboration revenue	-	-	2,283,600
Other	-	-	1,123,500
Total revenues	-	200,400	16,370,200
Operating expenses:			
Research and development	695,500	866,300	30,251,200
Acquired in-process research and development	-	-	7,523,200
General and administrative	604,600	1,055,300	31,285,700
Total operating expenses	1,300,100	1,921,600	69,060,100
Loss from operations	(1,300,100)	(1,721,200)	(52,689,900)
Other expenses, net:			
Interest expense, net	(316,400)	(102,800)	(10,678,600)
Change in warrant and put and note extension option liabilities	1,804,900	-	587,600
Loss on early extinguishment of debt	-	-	(4,761,300)
Other income	-	-	81,900
Income (loss) before income taxes	188,400	(1,824,000)	(67,460,300)
Income taxes	(2,700)	(1,900)	(23,200)
Net income (loss)	$185,700	$(1,825,900)	$(67,483,500)
Basic net income (loss) per share	$0.01	$(0.11)	
Diluted net loss per share	$(0.02)	$(0.11)	
Weighted average shares used in computing:			
Basic net income (loss) per share	20,839,941	16,842,655	
Diluted net loss per share	21,229,190	16,842,655	
Comprehensive income (loss)	$185,700	$(1,825,900)	$(67,483,500)

See accompanying notes to Condensed Consolidated Financial Statements.

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VISTAGEN THERAPEUTICS, INC.
(a development stage company)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Amounts in Dollars)

	Quarters Ended June 30,		Period From May 26, 1998 (Inception) Through June 30,
	2013	2012	2013
Cash flows from operating activities:			
Net income (loss)	$185,700	$(1,825,900)	(67,483,500)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	12,200	5,900	789,700
Acquired in-process research and development	-	-	7,523,200
Amortization of imputed discount on non-interest bearing notes	-	-	45,000
Amortization of discounts on 7%, 7.5% and 10% notes	78,000	20,900	551,700
Amortization of discounts on Platinum notes	16,000	-	3,578,100
Amortization of discounts on August 2010 short-term notes	-	-	572,000
Amortization of discounts on February 2012 12% convertible notes	-	9,800	22,700
Loss (gain) on currency fluctuation	17,400	(55,500)	(35,600)
Loss on early extinguishment of debt	-	-	4,761,300
Loss on settlements of accounts payable	-	-	78,300
Change in warrant and put and note term extension option liabilities	(1,804,900)	-	(587,700)
Stock-based compensation	198,100	71,000	5,793,700
Expense related to modification of warrants	(34,500)	436,400	1,215,400
Fair value of Series C preferred stock, common stock, and warrants granted for services	-	-	925,400
Fair value of common stock granted for services prior to the Merger	-		2,225,500
Fair value of common stock granted for services following the Merger	-	26,200	792,000
Fair value of warrants granted for services and interest following the Merger	22,500	19,300	770,800
Fair value of additional warrants granted pursuant to exercises of modified warrants (fiscal year 2013) and under Discounted Warrant Exercise Program (fiscal year 2012)	-	34,800	174,000
Fair value of common stock issued for note term modification		-	22,400
Interest income on note receivable for stock purchase	(2,500)	-	(30,100)
Consulting services by related parties settled by issuing promissory notes	-	-	44,600
Gain on sale of assets	-	-	(16,800)
Changes in operating assets and liabilities:			
Unbilled contract payments receivable	-	106,200	-
Prepaid expenses and other current assets	(36,100)	(3,700)	5,600
Security deposits and other assets	-	-	(29,000)
Accounts payable and accrued expenses	616,300	871,600	16,587,800
Deferred revenues	-	(13,200)	-
Net cash used in operating activities	(731,800)	(296,200)	(21,703,500)

Cash flows from investing activities:			
Purchases of equipment, net	(9,600)	-	(825,800)
Net cash used in investing activities	(9,600)	-	(825,800)
Cash flows from financing activities:			
Net proceeds from issuance of common stock and warrants, including units	57,000	-	4,042,100
Net proceeds from issuance of preferred stock and warrants	-	-	4,198,600
Proceeds from exercise of modified warrants	178,700	257,300	1,607,100
Proceeds from issuance of notes under line of credit	-	-	200,000
Proceeds from issuance of 7% note payable to founding stockholder	-	-	90,000
Net proceeds from issuance of 7% convertible notes	-	-	575,000
Net proceeds from issuance of 10% convertible notes and warrants	-	-	1,655,000
Net proceeds from issuance of Platinum notes and warrants	-	-	6,922,100
Net proceeds from issuance of 2008/2010 notes and warrants	-	-	2,971,800
Net proceeds from issuance of 2006/2007 notes and warrants	-	-	1,025,000
Net proceeds from issuance of 7% notes payable	-	-	55,000
Net proceeds from issuance of August 2010 short-term notes and warrants	-	-	800,000
Net proceeds from issuance of February 2012 12% convertible notes and warrants	-	-	466,500
Repayment of capital lease obligations	(1,900)	(5,700)	(119,300)
Repayment of notes	(40,700)	(4,700)	(1,869,800)
Net cash provided by financing activities	193,100	246,900	22,619,100
Net increase (decrease) in cash and cash equivalents	(548,300)	(49,300)	89,800
Cash and cash equivalents at beginning of period	638,100	81,000	-
Cash and cash equivalents at end of period	$89,800	$31,700	$89,800

See accompanying notes to Condensed Consolidated Financial Statements.

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VISTAGEN THERAPEUTICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. History and Organization

VistaGen Therapeutics, Inc., a Nevada corporation ("VistaGen" or the "Company"), is a biotechnology company with expertise in human pluripotent stem cell technology ("hPSC technology"). The Company is currently applying its hPSC technology for drug rescue, predictive toxicology and drug metabolism screening. The Company's primary goal is to use its hPSC technology platform, which it also refers to as Human Clinical Trials in a Test Tube™, and the novel pharmaceutical assay systems developed using its hPSC technology expertise and its network of strategic relationships, to generate novel, proprietary, safer variants (Drug Rescue Variants) of once-promising small molecule drug candidates originally discovered, developed and ultimately discontinued by large pharmaceutical or biotechnology companies prior to market approval due to unexpected safety concerns relating to heart toxicity, liver toxicity or adverse drug-drug interactions. The Company's strategy is to leverage substantial prior third-party investment in drug discovery and drug development and to generate early indications, or predictions, of how humans will ultimately respond to new drug candidates, including Drug Rescue Variants, before they are ever tested in humans, bringing human biology to the front end of the drug development process.

VistaGen's orally-available, small molecule prodrug candidate, AV-101, has successfully completed Phase 1 development in the Unites States for treatment of neuropathic pain. Neuropathic pain, a serious and chronic condition causing pain after an injury or disease of the peripheral or central nervous system, affects millions of people worldwide. The NIH awarded VistaGen approximately $8.8 million for preclinical and clinical development of AV-101.

VistaGen is in the development stage and, since inception, has devoted substantially all of its time and efforts to hPSC research and bioassay development, small molecule drug development, creating, protecting and patenting intellectual property, recruiting personnel and raising working capital.

VistaGen Therapeutics, Inc., a California corporation incorporated on May 26, 1998 ("VistaGen California"), is a wholly-owned subsidiary of the Company. As described more completely in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2013, pursuant to a strategic merger transaction on May 11, 2011, the Company acquired all outstanding shares of VistaGen California in exchange for 6,836,452 shares of the Company's common stock (the "Merger"), and assumed all of VistaGen California's pre-Merger obligations. The Condensed Consolidated Financial Statements of the Company included in this report also include the accounts of VistaGen California's two wholly-owned subsidiaries, Artemis Neuroscience, Inc., a Maryland corporation, and VistaStem Canada, Inc., a corporation organized under the laws of Ontario, Canada.

Note 2. Basis of Presentation and Going Concern

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not contain all of the information and footnotes required for complete consolidated financial statements. In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's interim financial information. The accompanying Condensed Consolidated Balance Sheet at March 31, 2013 has been derived from the Company's audited consolidated financial statements at that date but do not include all disclosures required by U.S. GAAP. The operating results for quarter ended June 30, 2013 are not necessarily indicative of the operating results to be expected

for the Company's fiscal year ending March 31, 2014 or for any other interim period or any other future period.

The accompanying unaudited Condensed Consolidated Financial Statements and notes to Condensed Consolidated Financial Statements should be read in conjunction with the Company’s audited Consolidated Financial Statements for the fiscal year ended March 31, 2013 contained in its Annual Report on Form 10-K, as filed with the United States Securities and Exchange Commission (“SEC”).

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The accompanying Condensed Consolidated Financial Statements have been prepared assuming the Company will continue as a going concern. As a development stage company without sustainable revenues, the Company has experienced recurring losses and negative cash flows from operations. From inception through June 30, 2013, the Company has a deficit accumulated during its development stage of $67.5 million. The Company expects these conditions to continue for the foreseeable future as it expands its Human Clinical Trials in a Test Tube™ platform and executes its drug rescue and regenerative cell therapy business programs.

At June 30, 2013, the Company had approximately $89,800 in cash and cash equivalents. Such cash and cash equivalents are not sufficient to enable the Company to fund its planned operations, including expected cash expenditures of approximately $5 million through the next twelve months. However, on April 8, 2013, the Company entered into a Securities Purchase Agreement with Autilion AG, a company organized and existing under the laws of Switzerland ("Autilion"), which was subsequently amended (the "Amended Purchase Agreement"). Under the terms of the Amended Purchase Agreement, Autilion is contractually obligated to purchase an aggregate of 72.0 million restricted shares of the Company's common stock at a purchase price of $0.50 per share for aggregate cash consideration of $36.0 million, in a series of tranches between June 27, 2013 and September 30, 2013 (cumulatively, the "Autilion Financing"). The Amended Purchase Agreement also provides for the election to the Company's Board of Directors of a designee of Autilion upon completion of the Autilion Financing. At June 30, the Company had completed an initial closing of $25,000 and issued 50,000 shares of its common stock under the Autilion Financing. In addition, from June 30, 2013 through the date of this report, the Company completed private placements of its securities resulting in aggregate cash proceeds of $535,500, as described in Note 11, Subsequent Events.

To the extent necessary, the Company may also seek to meet its cash needs and fund its working capital requirements through a combination of additional private placements of its securities, which may include both debt and equity securities issued to Platinum Long Term Growth Fund VII ("Platinum"), currently its largest institutional investor, and/or other investors, stem cell technology-based research and development collaborations, stem cell technology and drug candidate license fees and government grant awards. Additionally, the Company expects that its participation in strategic collaborations, including licensing transactions, may provide additional cash in support of its future working capital requirements. If the Company is unable to complete the Autilion Financing under the Amended Purchase Agreement or obtain sufficient financing from other sources, it may be required to reduce, defer, or discontinue certain of its research and development activities or it may not be able to continue as a going concern.

Note 3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include those relating to revenue recognition, share-based compensation, and assumptions that have been used to value warrants, warrant modifications, and previous put option and note term extension liabilities.

Revenue Recognition

The Company generates revenue principally from collaborative research and development arrangements, technology access fees and government grants. Revenue arrangements with multiple components are divided into separate units of accounting if certain criteria are met, including whether the delivered component has stand-alone value to the customer. Consideration received is allocated among the separate units of accounting based on their respective selling prices. The selling price for each unit is based on vendor-specific objective evidence, or VSOE, if available, third

party evidence if VSOE is not available, or estimated selling price if neither VSOE nor third party evidence is available. The applicable revenue recognition criteria are then applied to each of the units.

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The Company recognizes revenue when the four basic criteria of revenue recognition are met: (1) a contractual agreement exists; (2) the transfer of technology has been completed or services have been rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. For each source of revenue, the Company complies with the above revenue recognition criteria in the following manner:

Collaborative arrangements typically consist of non-refundable and/or exclusive technology access fees, cost reimbursements for specific research and development spending, and various milestone and future product royalty payments. If the delivered technology does not have stand-alone value, the amount of revenue allocable to the delivered technology is deferred. Non-refundable upfront fees with stand-alone value that are not dependent on future performance under these agreements are recognized as revenue when received, and are deferred if the Company has continuing performance obligations and has no objective and reliable evidence of the fair value of those obligations. The Company recognizes non-refundable upfront technology access fees under agreements in which it has a continuing performance obligation ratably, on a straight-line basis, over the period in which the Company is obligated to provide services. Cost reimbursements for research and development spending are recognized when the related costs are incurred and when collectability is reasonably assured. Payments received related to substantive, performance-based "at-risk" milestones are recognized as revenue upon achievement of the milestone event specified in the underlying contracts, which represent the culmination of the earnings process. Amounts received in advance are recorded as deferred revenue until the technology is transferred, costs are incurred, or a milestone is reached.

Technology license agreements typically consist of non-refundable upfront license fees, annual minimum access fees and/or royalty payments. Non-refundable upfront license fees and annual minimum payments received with separable stand-alone values are recognized when the technology is transferred or accessed, provided that the technology transferred or accessed is not dependent on the outcome of the continuing research and development efforts. Otherwise, revenue is recognized over the period of the Company's continuing involvement.

Government grants, which support the Company's research efforts on specific projects, generally provide for reimbursement of approved costs as defined in the terms of grant awards. Grant revenue is recognized when associated project costs are incurred.

Research and Development Expenses

Research and development expenses include internal and external costs. Internal costs include salaries and employment related expenses of scientific personnel and direct project costs. External research and development expenses consist primarily of sponsored stem cell research and development costs, costs associated with clinical and non-clinical development of AV-101, the Company's small molecule prodrug candidate for neuropathic pain and other neurological conditions, and costs related to the application and prosecution of patents related to the Company's hPSC technology, Human Clinical Trials in a Test Tube™, and AV-101. All such costs are charged to expense as incurred.

Share-Based Compensation

The Company recognizes compensation cost for all share-based awards to employees based on the grant date fair value of the award. Share-based compensation expense is recognized over the period during which the employee is required to perform services in exchange for the award, which generally represents the scheduled vesting period. The Company has no awards with market or performance conditions. For equity awards to non-employees, the Company re-measures the fair value of the awards as they vest and the resulting value is recognized as an expense during the period over which the services are performed.

The Company recorded share-based compensation costs of $97,800 and $71,000 related to option grants for the three month periods ended June 30, 2013 and 2012, respectively. The Company recorded additional share-based

compensation costs of $100,300 for the three months ended June 30, 2013 related to warrants granted to certain of its officers and to its independent directors in March 2013. During the three months ended June 30, 2013, the Company granted options to purchase an aggregate of 80,000 shares at exercise prices from $0.80 per share to $0.82 per share (the quoted market price on the grant date) to two employees and a consultant. During the three months ended June 30, 2012, the Company granted options to purchase an aggregate of 155,000 shares at an exercise price of $0.51 per share (the quoted market price on the grant date) to certain employees (excluding senior management) and certain scientific consultants. At June 30, 2013, there were options outstanding to purchase 4,816,771 shares of the Company's common stock at a weighted average exercise price of $1.30 per share.

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Warrant Liability

The Company has issued certain warrants to Platinum and, subject to Platinum's exercise of its rights to exchange shares of the Company's Series A Preferred stock that it holds, is obligated to issue additional warrants to Platinum, that contain an exercise price adjustment feature in the event the Company issues additional equity instruments at a price lower than the exercise price of the warrants. The Company accounts for these warrants as non-cash liabilities and estimates their fair value as described in Note 4, Fair Value Measurements; Note 7, Convertible Promissory Notes and Other Notes Payable, and Note 9, Capital Stock. The Company computes the fair value of the warrant liability at each reporting period and the change in the fair value is recorded as non-cash expense or non-cash income. The key component in determining the fair value of the warrant and the related liability is the Company's stock price, which is subject to significant fluctuation and is not under the Company's control. The resulting change in the fair value of the warrant liability on the Company's net income (loss) is therefore also subject to significant fluctuation and will continue to be so until all of the warrants are issued and exercised, amended or expire. Assuming all other fair value inputs remain generally constant, the Company will record non-cash expense when its stock price increases and non-cash income when its stock price decreases.

Comprehensive Income (Loss)

The Company has no components of other comprehensive income (loss) other than net income (loss), and accordingly the Company's comprehensive income (loss) is equivalent to its net income (loss) for the periods presented.

Income (Loss) per Common Share

Basic income (loss) per share of common stock excludes the effect of dilution and is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding for the period. Diluted income (loss) per share of common stock reflects the potential dilution that could occur if securities or other contracts to issue shares of common stock were exercised or converted into shares of common stock. In calculating diluted net income (loss) per share, the numerator is adjusted for the change in the fair value of the warrant liability (only if dilutive) and the denominator is increased to include the number of potentially dilutive common shares assumed to be outstanding during the period using the treasury stock method.

Basic net income (loss) and diluted net loss per share were computed as follows:

	Quarters Ended June 30,	
	2013	2012
Numerator:		
Net income (loss) for basic earnings per share	$185,700	$(1,825,900)
less: change in FV of warrant liability attributable to Exchange and Investment Warrants issued to Platinum	(649,300)	-
Net loss for diluted earnings per share	$(463,600)	$(1,825,900)
Denominator:		
Weighted average basic common shares outstanding	20,839,941	16,842,655
Assumed conversion of dilutive securities:		
Warrants to purchase common stock	389,249	-
Potentially dilutive common shares	389,249	-
Denominator for diluted earnings per share - adjusted weighted average shares	21,229,190	16,842,655

Basic net income (loss) per share	$0.01	$(0.11)
Diluted net loss per share	$(0.02)	$(0.11)

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The following table summarizes potentially dilutive adjustments to the weighted average number of common shares that were excluded from the calculation of diluted net loss per share as their effect would be antidilutive.

	June 30,	
	2013	2012
Series A preferred stock issued and outstanding (1)	15,000,000	4,370,550
Warrant shares issuable to Platinum upon exercise of common stock warrants by Platinum upon exchange of Series A preferred stock under the terms of the October 11, 2012 Note Purchase and Exchange Agreement	7,500,000	-
Outstanding options under the 2008 and 1999 Stock Incentive Plans	4,816,771	4,920,771
Outstanding warrants to purchase common stock	11,031,029	3,604,392
February 2012 12% convertible promissory notes and accrued interest	-	347,897
10% convertible Exchange Note and Investment Notes issued to Platinum in October 2012, February 2013 and March 2013, including accrued interest through June 30, 2013 (2)	6,948,841	-
Total	45,296,641	13,243,610

(1) at June 30, 2013, assumes exchange under the terms of the October 11, 2012 Note Exchange and Purchase Agreement with Platinum
(2) assumes conversion under the terms of the October 11, 2012 Note Exchange and Purchase Agreement with Platinum and the terms of the individual notes

Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended June 30, 2013, as compared to the recent accounting pronouncements described in the Company's Form 10-K for the fiscal year ended March 31, 2013, that are of significance or potential significance to the Company.

Note 4. Fair Value Measurements

The Company follows the principles of fair value accounting as they relate to its financial assets and financial liabilities. Fair value is defined as the estimated exit price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, rather than an entry price that represents the purchase price of an asset or liability. Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on several factors, including the instrument's complexity. The required fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels is described as follows:

Level 1 — Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs (i.e., inputs that reflect the reporting entity's own assumptions about the assumptions that market participants would use in estimating the fair value of an asset or liability) are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Where quoted prices are available in an active market, securities are classified as Level 1 of the valuation hierarchy. If quoted market prices are not available for the specific financial instrument, then the Company estimates fair value by using pricing models, quoted prices of financial instruments with similar characteristics or discounted cash flows. In certain cases where there is limited activity or less transparency around inputs to valuation, financial assets or liabilities are classified as Level 3 within the valuation hierarchy.

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The Company does not use derivative instruments for hedging of market risks or for trading or speculative purposes. In conjunction with the issuance of the Senior Secured Convertible Promissory Notes and related Exchange Warrant and Investment Warrants to Platinum in October 2012, February 2013 and March 2013, and the potential issuance of the Series A Exchange Warrant (see Note 9, Capital Stock), all pursuant to the Note Exchange and Purchase Agreement of October 2012 between the Company and Platinum (see Note 7, Convertible Promissory Notes and Other Notes Payable), the Company determined that the warrants included certain exercise price adjustment features requiring the warrants to be treated as liabilities, which were recorded at their estimated fair value. The Company determined the fair value of the warrant liability using a Monte Carlo simulation model with Level 3 inputs. Inputs used to determine fair value include the remaining contractual term of the notes, risk-free interest rates, expected volatility of the price of the underlying common stock, and the probability of a financing transaction that would trigger a reset in the warrant exercise price, and, in the case of the Series A Exchange Warrant, the probability of Platinum's exchange of the shares of Series A Preferred it holds into shares of common stock. Changes in the fair value of these warrant liabilities since March 31, 2013 have been recognized as non-cash component of other expense, net in the Condensed Consolidated Statements of Operations and Comprehensive Loss for the quarter ended June 30, 2013.

The fair value hierarchy for the warrant liability measured at fair value on a recurring basis is as follows:

			Fair Value Measurements at Reporting Date Using		
	Total Carrying Value		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013:					
Warrant liability	$	4,589,100	$ -	$ -	$ 4,589,100
March 31, 2013:					
Warrant liability	$	6,394,000	$ -	$ -	$ 6,394,000

During the three month period ended June 30, 2013, there was no significant change to the valuation models used for purposes of determining the fair value of the Level 3 warrant liability.

The changes in Level 3 liabilities measured at fair value on a recurring basis are as follows:

		Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Warrant Liability
Balance at March 31, 2013	$	6,394,000
Mark to market gain included in net income		(1,804,900)
Balance at June 30, 2013	$	4,589,100

No assets or other liabilities were carried at fair value at June 30, 2013 or March 31, 2013.

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Note 5. Prepaid Expenses

Prepaid expenses consist of the following at June 30, 2013 and March 31, 2013:

	June 30, 2013	March 31, 2013
Insurance	$104,000	$19,700
Rent	20,200	-
Legal fees	3,400	3,400
All other	7,300	10,600
	$134,900	$33,700

Note 6. Accrued Expenses

Accrued expenses consist of the following at June 30, 2013 and March 31, 2013:

	June 30, 2013	March 31, 2013
Accrued professional services	$74,300	$67,800
Accrued vacation pay and other compensation	206,900	219,300
Accrued royalties and license fees	77,800	25,000
All other	12,300	30,800
	$371,300	$342,900

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Note 7. Convertible Promissory Notes and Other Notes Payable

The following table summarizes the Company's secured and unsecured promissory notes and other notes payable at June 30, 2013 and March 31, 2013.

	June 30, 2013			March 31, 2013		
	Principal Balance	Accrued Interest	Total	Principal Balance	Accrued Interest	Total
Senior Secured 10% Convertible Promissory Notes issued to Platinum:						
Exchange Note issued on October 11, 2012	$ 1,272,600	$ 95,700	$ 1,368,300	$ 1,272,600	$ 61,700	$ 1,334,300
Investment Note issued on October 11, 2012	500,000	37,600	537,600	500,000	24,200	524,200
Investment Note issued on October 19, 2012	500,000	36,400	536,400	500,000	23,000	523,000
Investment Note issued on February 22, 2013	250,000	9,000	259,000	250,000	2,600	252,600
Investment Note issued on March 12, 2013	750,000	23,100	773,100	750,000	4,700	754,700
	3,272,600	201,800	3,474,400	3,272,600	116,200	3,388,800
Aggregate note discount	(1,947,100)	-	(1,947,100)	(1,963,100)	-	(1,963,100)
Total Senior notes (non-current)	$ 1,325,500	$ 201,800	$ 1,527,300	$ 1,309,500	$ 116,200	$ 1,425,700
Notes Payable to unrelated parties:						